

	Quarter	FYTD	1 year	3 years	5 years	Since Inception*
	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Australian Shares Trust*	3.1	19.8	16.6	8.5	13.8	11.8
S&P/ASX 300 Accumulation Index	2.0	16.3	13.0	8.0	13.2	8.3
<b>Value Added (Detracted)</b>	<b>1.1</b>	<b>3.5</b>	<b>3.6</b>	<b>0.5</b>	<b>0.6</b>	<b>3.5</b>
Net Performance	2.8	19.0	15.6	7.6	12.8	11.0

\*Gross Performance. ^Since inception: March 2000. Past performance is not a reliable indicator of future performance.

### Perennial Value Australian Shares Trust

The Trust aims to grow the value of your investment over the long term via a combination of capital growth and tax effective income, by investing in a diversified portfolio of Australian shares, and to provide a total return (after fees) that exceeds the S&P/ASX 300 Accumulation Index measured on a rolling three-year basis.

#### Trust manager:

John Murray

#### Risk profile:

High

#### Trust FUM (as at 31 March 2014):

AUD1.8 billion

#### Income distribution frequency:

Half yearly

#### Team FUM (as at 31 March 2014):

AUD8.4 billion

#### Minimum initial investment:

\$25,000

#### Trust inception date:

March 2000

#### APIR code:

IOF0200AU

- ▶ **Fairfax Media (up 46.1%), a conviction holding of Perennial Value's, was the best performing stock in the portfolio for the month.**
- ▶ **The buying in AMP was pleasing with additional stock purchased at around \$4.40 per share versus the March close of \$4.98 per share.**
- ▶ **In January we reached out to Lend Lease to discuss the safety issues at the Barangaroo site in Sydney.**

The Perennial Value Australian Shares Trust (the Trust) delivered a good outcome for the quarter, generating a return of 3.1% compared to the benchmark S&P/ASX300 Accumulation Index (the Index) return of 2.0% giving 1.1% of outperformance. Pleasingly, this is the seventh consecutive quarter of outperformance for the Trust.

Globally, economic data released over the quarter was mixed, showing overall improvement in developed economies, but slower activity in emerging markets. The data was also distorted by severe weather conditions in North America. The S&P500 rose 1.3% over the quarter while the FTSE declined 2.2% despite continued indications that a modest recovery in Europe remains on track. The key concern over the quarter was China, which is experiencing a cyclical slowdown in growth with credit concerns arising following China's first onshore bond default in modern times. The Shanghai Composite ended the quarter down 3.9% with markets looking toward the central government for any fiscal response to stabilise growth. In Japan, the Nikkei ended down 9.0% after a very strong market rally through 2013.

Domestically, economic data was mixed with the unemployment rate ticking up to 6%, a 12-year high, as the economy continues its attempts to transition away from mining-investment lead growth. On the positive side, the current low interest rate environment continues to benefit house prices and consumer spending. The Reserve Bank of Australia held cash rates steady at 2.5%, however they moved to a more neutral stance sighting a period of stability in interest rates in contrast to the easing bias held last quarter. The Australian dollar ended the quarter at US\$0.927, up 3.4 cents.

Utilities (up 4.2%), IT (up 4.1%) and financials (up 3.7%) were the better performing sectors, while consumer staples (down 0.7%), materials (down 0.3%) and telecommunications (up 0.2%) lagged.

The best performing stock in the portfolio was Fairfax Media (up 46.1%). The significant re-rating of Fairfax is a very good example of Perennial Value increasing exposure to an undervalued and very much out of favour company. Notwithstanding the very strong recent share price outperformance, the portfolio still retains a meaningful holding as it remains good value at current levels (FY '15 price to free cashflow ratio of 11.9x versus equivalent overall Industrials ratio of 15.3x), the balance sheet is strong and management has been implementing a number of initiatives to improve the business. These include focusing efforts on growing businesses such as Domain, the successful introduction of digital subscriptions, raising cover prices which has increased circulation revenue while cutting the costs associated with discounted circulation, shutting expensive printing plants and selling associated property, outsourcing functions such as telemarketing and closing unprofitable and marginal titles.

Other solid performers included Newcrest (up 26.8%) on a rise in the gold price through most of the quarter and a better than expected production report, and Orora (up 21.1%) which has performed strongly in its first quarter as a listed entity following its demerger from Amcor in December. Several stocks posted strong gains of between 15% and 20% including Premier Investments, Boral, AMP and Iluka Resources.

Poorer performing stocks in the portfolio included domestic cyclical Myer (down 15.6%) and Asciano (down 8.7%) which are yet to see any meaningful improvement in operating conditions. Sims Metal (down 9.8%) following a very weak quarter for iron ore which influences scrap metal prices, and Orica (down 8.3%) which is dealing with poor sentiment and difficult conditions in the mining services sector.

During the quarter, the portfolio sold out of Aurora Oil and Gas, Fletcher Building, Santos, Treasury Wines and WorleyParsons. The portfolio also sold the shares received in Recall and Sydney Airports following a demerger and a special distribution out of existing holdings, Brambles and Macquarie Group. In the case of both of these stocks, they were divested largely on valuation grounds. Proceeds were used to increase exposure to a number of existing holdings, including AGL Energy, AMP, Westfield Group and Westpac. The buying in

AMP has been particularly pleasing. The portfolio bought additional stock over the January/February period at around \$4.40 per share, the subsequent profit result in February was well received by the market, and the share price closed the quarter stronger at \$4.98.

We remain alert to Environmental, Social and Corporate Governance (ES&G) issues in the portfolio. In January, we engaged with Lend Lease (LLC) in relation to safety at its Barangaroo development following a fatality at this worksite. LLC advised that Workcover has investigated and cleared the site of safety concerns and work has subsequently been allowed to continue at the site. We note that LLC has significantly improved its safety performance over the last several years with its lost time injury frequency rates (LTIFR) declining in each of the last three years to a level that is less than half its rate in 2007. The company has also dramatically improved its safety record in relation to fatalities over the last three years, including a fatality free year in 2013. We remain comfortable with the company's safety performance and will continue to monitor the situation closely going forward.

At quarter end, stock numbers were 41 and cash was 1.4%.

#### Top 10 Holdings

Stock name	Trust weight %	Index weight %
BHP Billiton Limited	9.6	8.6
Westpac Banking Corp	8.3	7.9
ANZ Banking Group Ltd	7.5	6.7
National Aust. Bank	7.4	6.1
Commonwealth Bank.	6.9	9.2
Telstra Corporation.	5.7	4.6
Macquarie Group Ltd	3.3	1.4
Woodside Petroleum	3.0	1.8
Rio Tinto Limited	2.9	2.0
QBE Insurance Group	2.7	1.2

#### Asset Allocation

Sector	Trust weight %	Index weight %
Energy	5.7	5.8
Materials	24.5	17.4
Industrials	3.9	6.8
Consumer Discretionary	7.0	4.8
Consumer Staples	1.5	7.9
Health Care	0.7	4.7
Financials-x-Real Estate	41.4	38.2
Real Estate	7.2	6.7
Information Technology	0.0	0.8
Telecommunication Services	5.7	5.1
Utilities	0.8	1.6
Other	1.4	-

Rounding accounts for small +/- from 100%.

For all other enquiries please contact us on 1300 730 032  
or visit [www.perennial.net.au](http://www.perennial.net.au).

Signatory of:



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